ECONOMIC COMMENTARY

Alberta led all Provinces in Economic Growth in 2014

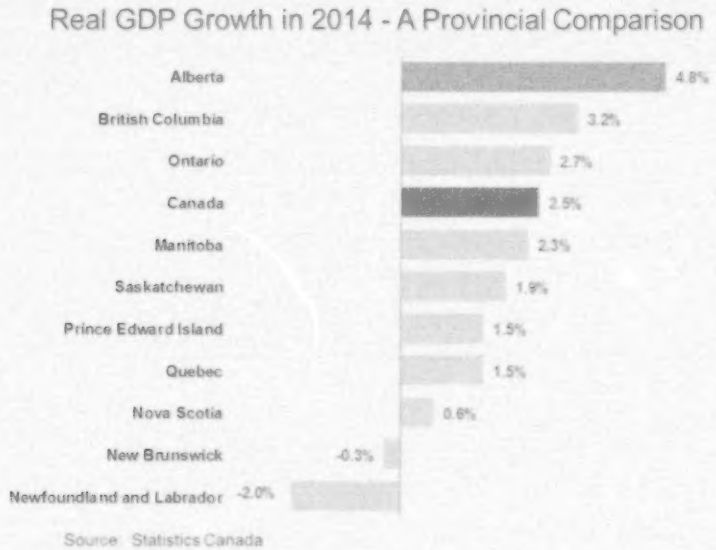
December 9, 2015

Highlights:

Alberta led all provinces in economic growth in 2014 as Alberta's real gross domestic product rose an estimated 4.8%. In 2014, much of Alberta's strong economic performance was directly or indirectly tied to its large and expanding oil and gas extraction sector.

Alberta Government

According to Statistics Canada's most recent release on provincial GDP, Alberta led all provinces in economic growth in 2014: Alberta's real gross domestic product (GDP)[1] rose an estimated 4.8% in 2014 (from 2013). British Columbia was second at 3.2%, followed by Ontario at 2.7% and Manitoba at 2.3%. Canada's GDP growth was 2.5% in 2014. Alberta also registered the fastest growth of all provinces over the -year period ending in 2014: between 2004 and 2014 Alberta's GDP increased by 38.5%; Manitoba ranks second at 28.1%; Canada's economic growth was 20.1% over the same period.



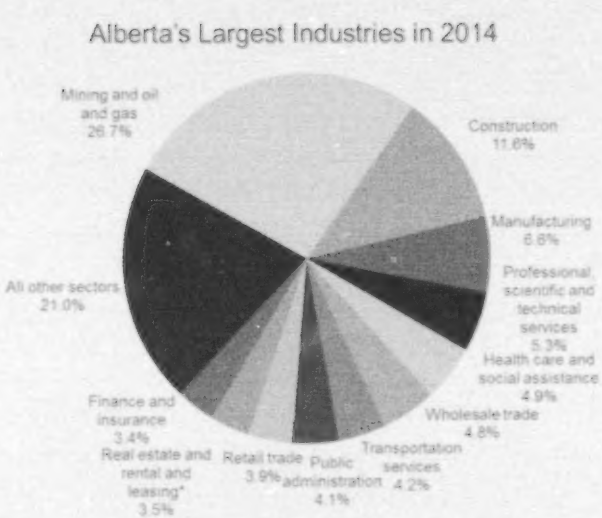
In 2014, the mining and oil and gas sector was again Alberta's largest industry, accounting for 26.7% of total Alberta GDP (in current dollars[2]). This sector's share has increased from 22.7% in 2012 to 26.7% in 2012, mainly because of higher natural gas prices and a strong increase in oil and gas services such as drilling and rigging activity. The construction sector was Alberta's second largest sector in 2014 with an 11.6% share. The construction sector has gradually increased its GDP share from 7.2% in 2004 to 11.6% in 2014 because of very strong investment growth, especially in residential construction and oil sands projects.

The sectors with the highest GDP growth in 2014 were:

- Mining and oil and gas up 8.4%
- Wholesale trade up 6.9%
- Transportation and warehousing up 5.3%
- Retail trade up 5.3%
- Healthcare and social assistance up 5.0%
- Real estate and rental and leasing up 4.9%
- Administrative and support, waste management up 4.7%

[1] While the GDP growth rates in this commentary for Alberta's industries are derived from GDP estimates at basic prices and in chained 2007 dollars, the overall GDP growth rates shown here are at market prices

[2] GDP estimates in current dollars have not been adjusted for price changes and reflect that year's prices


Alberta's Largest Industries in 2014
Mining and oil and gas 26.7%
Construction 11.6%
Manufacturing 6.8%
Professional, scientific and technical services 5.3%
Health care and social assistance 4.9%
Wholesale trade 4.8%
Transportation services 4.2%
Public administration 4.1%
Retail trade 3.9%
Real estate and rental and leasing* 3.5%
Finance and insurance 3.4%
All other sectors 21.0%

Note: Current $ GDP at Basic Prices
Source: Statistics Canada
* GDP for real estate and rental and leasing excluding owner-occupied dwellings

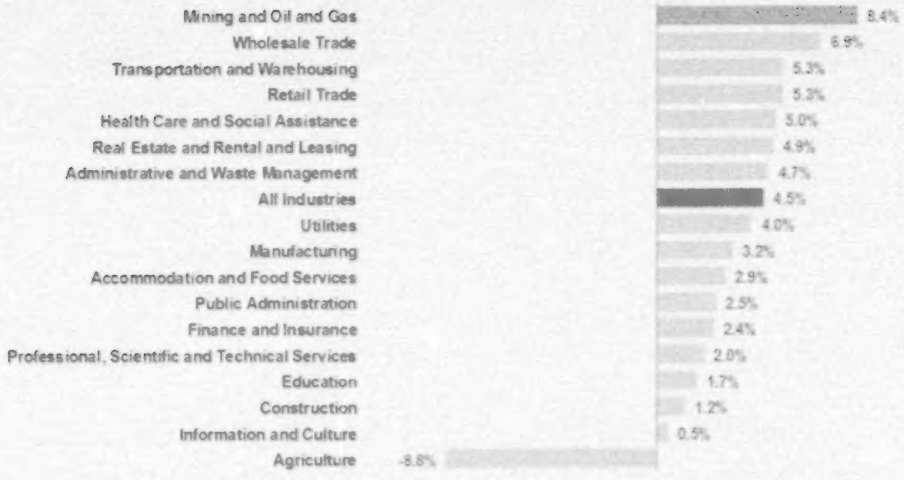
Mining and oil and gas, Alberta's largest sector, increased its economic output by 8.4% in 2014. GDP for the oil sands sector increased by an estimated 10.7% as new projects added to productive capacity, while conventional oil and gas extraction output rose 4.3% on continued growth for conventional crude oil and a rebound in natural gas production. Oil and gas services, such as drilling and rigging, rose 18.3% as a result of strong oil and gas prices (although oil prices declined sharply in the fourth quarter of 2014 they were at very high levels during the first nine months of 2014). The oil sands sub-sector now accounts for between 10% and 11% of Alberta's total GDP, which would make it Alberta's third largest sector behind conventional oil and gas extraction and construction. In 2007, the oil sands sector accounted for 7.8% of total GDP.

The construction sector saw its output grow by 1.2% in 2014, because of very robust growth in the residential building construction sub-sector which grew by 10.4%. Output in construction's largest sub-sector, oil and gas engineering construction, fell 0.3% as investment in the conventional oil and gas sector declined.

The manufacturing sector, Alberta's third largest sector, saw its output rise 3.2% between 2013 and 2014. The plastics and rubber products sub-sector, a relatively small manufacturing sub-sector, had the highest growth as its GDP increased 13.5% in 2014. Very strong growth was also registered for computer and electronic products (up 11.9%) and primary metals such as steel products (up 10.4%). The largest sub-sector, machinery, increased by 4.8%, in part because of very strong growth in international demand for pumps that are used in oil and gas fields.

The professional, scientific and technical services had GDP growth of 2.0% in 2014. This was the result of a weak 0.5% increase for its largest sub-sector, architectural and engineering services, which is dominated in Alberta by the engineering services to the oil and gas sector.

GDP Growth by Industry in 2014



Note: Real GDP at Basic Prices
Source: Statistics Canada

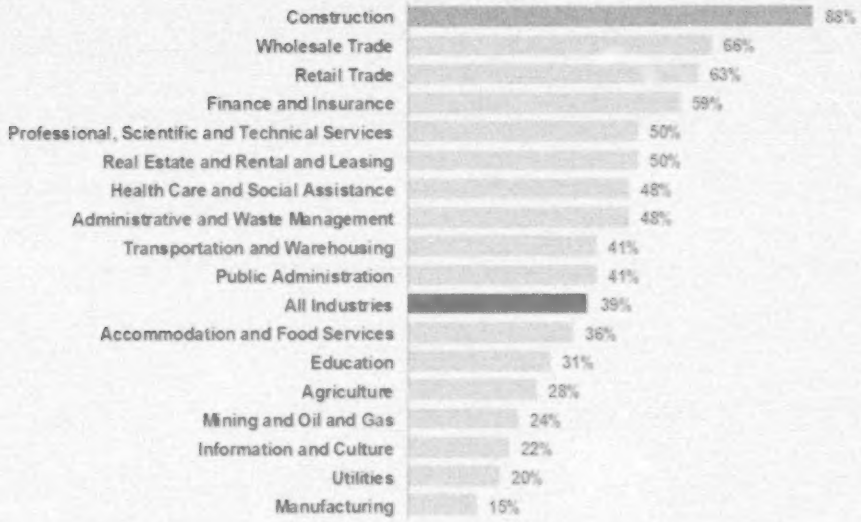
Health care and social assistance GDP rose 5.0%: hospitals had the highest output growth of 7.9%. Wholesale trade output increased by 6.9% in 2014, second only to mining and oil and gas' 8.4% increase, with the highest growth recorded for wholesalers of farm products, building products, motor vehicles and parts and petroleum products. The transportation services and warehousing sector registered the third highest growth rate at 5.3% as the pipeline transportation sub-sector grew by 7.9%, mainly because of surging oil sands production.

Agriculture was Alberta's only sector to register a GDP decline in 2014 as output fell by 8.8% between 2013 and 2014: crop production declined by 10.6% as average yields for all major crops were much lower in 2014 than in the record year 2013.

On a 10-year basis Alberta GDP rose 39% between 2004 and 2014. The fastest growing sector in Alberta is construction with a 88% increase in GDP, in part because of a doubling in output of its largest sub-sector, oil and gas engineering construction. Other fast growing sectors include:

- Wholesale trade (up 66% between 2004 and 2014)
- Retail trade (up 63%)
- Finance and insurance (up 59%)
- Professional, scientific and technical services (up 50% on strong growth in engineering services)
- Real estate and rental and leasing (up 50%)
- Health care and social assistance (up 48%)
- Administrative and support, waste management and remediation services (up 48% - waste management and remediation services output rose 188%)
- Transportation and warehousing (up 41%)

GDP Growth by Industry
2004 - 2014



Note: Real GDP at Basic Prices
Source: Statistics Canada

In summary, Alberta's strong economic performance of 2014 was driven by large GDP increases for the oil and gas extraction and services sector as well as a number of sectors that provide goods or services to the oil and gas sector, such as machinery and primary metal manufacturing, pipeline transportation and petroleum product wholesalers.

However, Alberta's economy is faring worse in 2015 because of much lower oil and gas prices. Private sector forecasters are expecting Alberta's GDP to contract by between 1% and 1.5% this year, followed by growth of between 0.5% and 1.5% in 2016. In both years, Alberta could be one of the two worst performers among the provinces.

Even with lower prices output volumes of natural gas and especially non-conventional (oil sands) oil have continued to rise so far in 2015, although production of conventional oil is lower this year. Low energy prices have led to a sharp decline in capital investment by oil and gas companies: in the third quarter of 2015 capital spending by oil and gas companies was 35% lower than it was in the third quarter of 2014. This in turn has led to a sharp contraction for the oil and gas services sector which saw a more than 40% decline in output at the Canadian level during the first nine months of this year compared to the same period of 2014.

Other sectors that have been directly impacted by reduced oil and gas investment include engineering construction, fabricated metals and machinery manufacturing, engineering services, and wholesale trade (especially wholesaling of mining equipment and other machinery and equipment and of metal service centres). Lay-offs in these affected sectors and a weakening of consumer confidence have also led to declines in retail trade, especially car sales, residential construction and housing resales.

Note: statistics for GDP and many other economic indicators can be found on the Alberta Economic Dashboard at http://economicdashboard.albertacanada.com/